

Message Text

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E.O. 11652: GDS

TAGS: EIND, JA

SUBJ: PROCTOR AND GAMBLE INVESTMENT IN JAPAN

REF: STATE 44323

SUMMARY: MITI HAS GIVEN ADMINISTRATIVE GUIDANCE ON
DETERGENT PRICES AS WELL AS ON OTHER ITEMS IN DAILY USE.
ADDITIONAL PRESSURE FOR SUCH ACTION RE DETERGENT RESULTED
FROM CRITICISM OF PRICING PRACTICES OF DETERGENT
MANUFACTURERS. NO FORMAL PRICE CONTROLS HAVE BEEN INVOKED
AS YET. DETERGENT MANUFACTURE FALLS IN LIBERALIZED SECTION
OF INDUSTRIES UNDER MAY 1973 CAPITAL LIBERALIZATION
MEASURES. POINT OF CONTENTION AT PRESENT BETWEEN MITI AND
P&G SEEMS CENTER AROUND WHETHER P&G UNDERTOOK NOT RAISE
CAPITAL RATIO FOR THREE YEARS WHEN JOINT VENTURE APPROVED
IN NOVEMBER 11972. END SUMMARY.

1. MITI HAS GIVEN QTE STRONG ADMINISTRATIVE GUIDANCE UNQTE
TO DETERGENT MANUFACTURERS AND OTHERS BEGINNING IN
DECEMBER TO HOLD LINE ON PRICES. IN ADDITION, IT IS EX-
PECTED TO ANNOUNCE FORMAL PRICE CONTROLS ON DETERGENTS
AND OTHER ITEMS IN DAILY USE BY JAPANESE PEOPLE IN NEAR
FUTURE. REASON FOR MITI GUIDANCE ON DETERGENTS TWO-
FOLD: FIRST IS GOVT EFFORT TO HOLD PRICE LINE ON
ITEMS IN DAILY USE OY MAJORITY OF JAPANESE PEOPLE AND
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THUS, TO EXTENT POSSIBLE, LESSEN POLITICAL IMPACT OF IN-

FLATION; AND SECOND IS PUBLIC PRESSURE WHICH DEVELOPED AS RESULT OF REPORTED SPECULATIVE PRICE INCREASES MADE BY DETERGENT MANUFACTURERS PRIOR TO ISSUANCE OF MITI GUIDANCE. WITH REFERENCE TO LATTER POINT, UNTIL NOVEMBER 1973 DETERGENT PRICES WERE SET BY MANUFACTURERS WITHOUT GOVERNMENT INTERFERENCE. SHORTAGES CAUSED RUN ON DETERGENTS AND RETAIL PRICES ROSE RAPIDLY. FOLLOWING THESE PRICE INCREASES IN NOVEMBER, DIET INVESTIGATION UNCOVERED FACT THAT CERTAIN DETERGENT MANUFACTURERS HAD SENT LETTERS TO WHOLESALE OUTLETS ADVISING THEM OF PROJECTED PRICE INCREASE. RESULT OF SUCH LETTERS WAS THAT WHOLESALE OUTLETS WITHHELD DETERGENTS FROM MARKET PENDING PRICE INCREASE AND MADE ALREADY BAD SUPPLY SITUATION WORSE. DISCLOSURE OF THIS OCCASIONED SEVERE PUBLIC CRITICISM.

2. IT SHOULD BE POINTED OUT THAT TO DATE GOJ HAS NOT INVOKED FORMAL PRICE CONTROLS ON DETERGENTS. FURTHER, IN WAKE OF OIL CRISIS, WHEN SUPPLY CONTROLS WERE PLACED ON MOST MANUFACTURING IN JAPAN, DETERGENT MANUFACTURERS WERE EXEMPTED FROM SUCH CONTROLS BY GOJ IN EFFORT TO INCREASE SUPPLIES AND REDUCE PRESSURE IN MARKET PLACE. DESIRED RESULT HAS BEEN OBTAINED AND ADEQUATE SUPPLIES ARE NOW AVAILABLE AND RETAIL PRICE HAS DROPPED TO SOME EXTENT.

3. UNDER CAPITAL LIBERALIZATION PROGRAM ADOPTED IN MAY 1973 MANUFACTURE OF DETERGENTS FALLS IN CATEGORY OF COMPLETE LIBERALIZATION. THUS, PROCTOR AND GAMBLE (P&G) SHOULD BE ABLE, WITH APPROVAL OF BOARD OF DIRECTORS OF JOINT VENTURE AND APPROVAL OF GOJ, TO INCREASE ITS CAPITAL POSITION IN ITS JOINT VENTURE. AS DESCRIBED BELOW, HOWEVER, THERE APPEARS TO BE SOME QUESTION OF A SIDE LETTER TO ORIGINAL AGREEMENT ON ESTABLISHMENT OF P&G JOINT VENTURE WHICH LIMITS P&G'S ABILITY TO INCREASE ITS EQUITY SHARE. EMBASSY HAS ON SEVERAL OCCASIONS QUESTIONED MITI REGARDING VALIDITY OF SUCH SIDE LETTERS SUBMITTED PRIOR TO MAY 1973 LIBERALIZATION. GOJ'S RESPONSE THEIR STATUS HAS BEEN NON-COMMITTAL.

4. P&G DIFFICULTIES DESCRIBED REFTEL HAVE RECEIVED COVERAGE IN LOCAL PRESS. FEB 3 ARTICLE IN CONFIDENTIAL

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NIHON KEIZAI STATED THAT P&G HAD APPLIED TO DOUBLE CAPITALIZATION OF ITS JOINT VENTURE, PROCTOR AND GAMBLE SUNHOME, LIMITED, OF OSAKA. VENTURE IS PRESENTLY ON FIFTY-FIFTY BASE AND IS THIRD LARGEST DETERGENT MANUFACTURERS IN JAPAN. ARTICLE CLAIMS THAT JAPANESE PARTNER CANNOT RAISE CAPITAL REQUIRED TO IMPLEMENT THIS PLAN AND, THEREFORE, P&G WILL PROVIDE ALL NEW CAPITAL AND INCREASE ITS RATIO OF OWNERSHIP.

5. ARTICLE FURTHER STATES THAT WHEN JOINT VENTURE APPROVED IN NOVEMBER 1972, P&G PROVIDED MITI WITH A SIDE LETTER IN WHICH IT PROMISED NOT TO INCREASE ITS LEVEL OF CAPITAL PARTICIPATION FOR A THREE-YEAR PERIOD. THUS, ARTICLE STATES, MITI IS NOW ONLY HOLDING P&G TO ITS PREVIOUS COMMITMENT.

6. COMM/COUNS HAS DISCUSSED MATTER WITH P&G REPRESENTATIVE IN OSAKA (NEDELL), WHO STATED THAT P&G HERE STILL CONSIDERS ITS DEALINGS WITH MITI TO BE IN DISCUSSION STAGE. WHILE APPLICATION HAS BEEN FILED WITH MITI TO INCREASE P&G CAPITAL PARTICIPATION RATIO, DISCUSSIONS REGARDING THIS APPLICATION ARE NOT YET COMPLETE. NEDELL STATES THAT P&G GAVE NO WRITTEN UNDERTAKING TO MITI AT TIME OF APPROVAL OF JOINT VENTURE TO EFFECT THAT P&G WOULD NOT INCREASE ITS CAPITAL RATIO. HE ADDED, HOWEVER, THAT THIS POINT IS SUBJECT OF CURRENT DISCUSSION AND THAT SOME MISUNDERSTANDING EXISTS. NEDELL ALSO SAID THAT NIHON KEIZAI ARTICLE WAS REFLECTION OF MITI POSITION AT THIS TIME.

7. NEDELL WAS UNAWARE OF P&G APPROACH TO DEPARTMENT. WHILE HE APPRECIATED EMBASSY CONCERN, HE INDICATED HIS INTENTION TO RECOMMEND TO P&G THAT USG NOT INTERVENE AT THIS STAGE OF DISCUSSIONS. COMM/COUNS ASSURED NEDELL EMBASSY WOULD NOT APPROACH GOJ AT THIS TIME, BUT WOULD BE WILLING TO DO SO WHEN P&G CONSIDERED IT APPROPRIATE.

8. COMMENT: PRESENT PRICE SQUEEZE ON DETERGENT MANUFACTURERS COULD GROW WORSE IN NEAR FUTURE. LDP HAS DECIDED, IN PRINCIPLE, TO ALLOW MITI TO SET HIGHER PRICES FOR PETROLEUM PRODUCTS TO OFF-SET HIGHER COSTS OF CRUDE OIL. DECISION TAKEN RELUCTANTLY AND POLITICIANS MAY WELL INSIST ON HOLDING LINE ON PRICES OF DAILY USE
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PRODUCTS, SUCH AS DETERGENTS, FOR SOME FURTHER PERIOD, PERHAPS UNTIL AFTER JUNE UPPER HOUSE ELECTIONS.

9. IF SIDE LETTER IS IN FACT OBSTACLE TO INCREASE IN P&G EQUITY, EMBASSY BELIEVES P&G CASE OFFERS OPPORTUNITY TEST MAY 1973 CAPITAL LIBERALIZATION INTERPRETATION. EMBASSY WOULD VERY MUCH LIKE TO PURSUE QUESTION OF WHETHER AGREEMENT ON RESTRICTIONS, WHETHER WRITTEN OR TACIT, IMPOSED PRIOR TO CAPITAL LIBERALIZATION ARE STILL CONSIDERED VALID BY MITI FOR THOSE INDUSTRIES NOW IN COMPLETELY LIBERALIZED CATEGORY. WE WILL OF COURSE TAKE NO ACTION WITHOUT P&G APPROVAL, BUT WOULD VERY MUCH LIKE TO OBTAIN CLARIFICATION ON THIS POINT AT APPROPRIATE TIME.
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